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BUDGET POLICY

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1. DEFINITIONS

In this Policy, unless inconsistent with the context

"Accounting Officer" means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act; and also refers to the municipal manager of a municipality in terms of section 60 of the MFMA;

"Adjustment Budget" means a budget as described in Section 28 of the MFMA, and in terms of Part 4 of the Municipal Budget and Reporting Regulations;

''allocation'', in relation to a municipality, means—
(a) a municipality's share of the local government's equitable share referred to in section 214(1)(a) of the Constitution;
(b) an allocation of money to a municipality in terms of section 214(1)(c) of the Constitution;
(c) an allocation of money to a municipality in terms of a provincial budget; or
(d) any other allocation of money to a municipality by an organ of state, including by another municipality, otherwise than in compliance with a commercial or other business transaction;

"Approved Budget" means an annual budget that is approved by a Municipal Council or approved by a Provincial or the National Executive following an intervention in terms of section 139 of the constitution and includes such an annual budget as revised by an adjustments budget in terms of section 28 of the MFMA and in terms of the Municipal Budget and Reporting Regulations;

"Capital Asset" means tangible and intangible assets that is held by the municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes and is expected to have a useful life extending for more than one financial year;

"Capital Budget" means an estimation of the expenses that meets the definition of capital assets, which will be incurred during a specific financial year from which future benefits economic benefits or service delivery will flow linked to the sources of finance from which these expenses will be funded;

"Chief Financial Officer" or **"CFO"** means a person designated in terms of section 80(2) (a) of the MFMA and who performs such budgeting and other duties as may be delegated in terms of section 79 of the MFMA by the accounting officer;

"Council" means the municipal council of this municipality referred to in section 18 of the Municipal Structures Act;

"Cost Centre" means the third level of appropriation of funds which specifies the total amount that is appropriated and for which only one line manager is responsible; the cost centre represents the Municipal classification segment of the municipal Standard Chart of Accounts;

“Division of Revenue Act” means the Act of Parliament, which must be enacted annually in terms of section 214 (1) of the Constitution;

“Financial year” means a 12-month period with year ending on 30 June;

“Fruitless, and wasteful expenditure” means expenditure that was made in vain and would have been avoided had reasonable care been exercised;

“**IDP**” is an acronym for Integrated Development Plan

"Irregular expenditure" means –

a) Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the MFMA, and which has not been condoned in terms of section 170 of the MFMA;

b) Expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;

c) Expenditure incurred by the municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or

d) expenditure incurred by the municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by the municipality which falls within the definition of "unauthorised expenditure";

“Item segment” is one of the 7 segments of the Municipal Standard Chart of Accounts and includes items of:

- Expenditure,
- Revenue,
- Assets,
- Liability,
- Gains and Losses.

“Line manager” means all officials reporting directly to a senior manager and to which a sub vote and Cost centre is allocated;

“MFMA” is the acronym for Municipal Finance Management Act (Act 56 of 2003)

“mSCOA” is an abbreviation for Municipal Standard Chart of Accounts and is the classification framework for all accounting entries for municipalities. All transactions must be allocated to all seven segments of chart, namely:

1. **Project segment;**
2. **Function segment;**
3. **Fund segment;**
4. **Regional segment;**
5. **Item segment;**

6. **Costing segment; and**
7. **Municipal classification segment (Only this segment is optional)**

"Operating Budget" means the financial plan, which outlines proposed expenditure with a life expectancy of less than 12 months for the coming financial year and estimates the revenues used to finance this expenditure;

"Overspending" means -

(a) causing the operational or capital expenditure incurred by the municipality during a financial year to exceed the total amount appropriated in that year's budget for its operational or capital expenditure, as the case may be;
(b) in relation to a vote, causing expenditure under the vote to exceed the amount appropriated for that vote; or
(c) in relation to expenditure under section 26 of the MFMA, causing expenditure under that section to exceed the limits allowed in subsection (5) of this section;

"Project"

- **"Operating Project" means the projects as per the mSCOA Project Segment.**
- **"Capital Project" means the individual capital projects approved by Council or capital projects collectively approved by Council as part of the Annual Budget approval process.**

"Unauthorised expenditure" means any expenditure incurred by a municipality otherwise than in accordance with sections 15 or 11(3) of the MFMA, and includes –

a) Overspending of the total amount appropriated in the municipality's approved budget;
b) Overspending of the total amount appropriated for a vote in the approved budget;
c) Expenditure from a vote unrelated to the department or functional area covered by the vote;
d) Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
f) A grant made by the municipality otherwise than in accordance with the MFMA;

"Senior Manager" means all officials reporting directly to the Accounting Officer as contemplated in sect 56 of the MSA and to which a vote is allocated;

"SIPDM" means the standard for infrastructure procurement and delivery management as included as part of the supply chain management policy of the Council

"Sub Vote" means the second level of appropriation of funds; which specifies the total amount that is appropriated and for which only one line manager is responsible;

"Virement" means the process of transferring an approved budgetary provision within the same vote from one Item segment or any combination of other segments to another during a municipal financial year and which results from changed circumstances from that which prevailed at the time of the previous budget adoption;

"Vote" means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different directorates of the municipality; and which specifies the total amount that is appropriated for the purposes of the directorate concerned and includes:

- Municipal Manager;
- Corporate services;
- Financial services;
- Technical services;
- Community services;
- Planning & Integrated services.

2. INTRODUCTION

2.1. In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 4 on Municipal Budgets, Subsection (16), states that the council of a municipality must for each financial year approve an annual budget for the municipality before the commencement of that financial year. According to subsection (2) of the Act concerned, in order to comply with subsection (1), the Executive Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

2.2. This policy must be read, analysed, explained, interpreted, implemented and understood against this legislative background. The budget is a tool for planning and control and it plays a critical role in an attempt to realise diverse community needs. Central to this, the formulation of a municipality budget must take into account the government's macro-economic and fiscal policy fundamentals.

3. OBJECTIVES OF POLICY

3.1. The objective of this policy is to set out the budgeting principles which the municipality will follow in preparing each annual and adjustment budget, as well as the responsibilities of the Executive Mayor, Accounting Officer, Chief Financial Officer and Senior Managers in compiling such budget.

3.2. Another objective of this budget policy is to set out a framework to deal with the shifting or virement of funds and budget allocations.

3.3. This policy also establishes and maintains procedures to ensure adherence to the Municipality's IDP review and budget processes.

4. BUDGETING PRINCIPLES

4.1. The municipality shall not budget for a cash deficit and should also ensure that revenue projections in the budget are realistic taking into account actual collection levels.
4.2. The budget must be balanced and funded in terms of the MFMA.

4.3. Expenses may only be incurred in terms of the approved annual budget (or adjustments budget) and within the limits of the amounts appropriated for each vote in the approved budget.

4.4. Mossel Bay Municipality shall prepare a three-year budget (medium term revenue and expenditure framework (MTREF)), which must be reviewed annually and approved by Council.

4.5. The MTREF budget must at all times be within the framework of the Municipal Integrated Development Plan.

4.6. The budget must be aligned to the requirements of the Municipal Standard Chart of Accounts (mSCOA) regulations of the MFMA.

4.7. No budget will be allocated for external funded projects unless it is gazetted or the request is supported by written confirmation from the external source of the specific grant.

5. ROLES AND RESPONSIBILITIES

5.1. Role of the Executive Mayor

The Council must maintain oversight over the implementation of the Budget Policy. For the purpose of such oversight, the Executive Mayor of a Municipality must:

5.1.1. Monitor, oversee the responsibilities assigned in terms of the MFMA to the Accounting Officer and the Chief Financial Officer, but may not interfere in the exercise of those responsibilities.
5.1.2. Take all reasonable steps to ensure that the municipality performs its constitutional statutory functions within the limits of the municipality's approved budget.
5.1.3. The Executive Mayor must, within 30 days of the end of each quarter, submit a report to the council on the implementation of the budget and the financial state of affairs of the municipality.
5.1.4. Evaluate whether the municipality's approved budget is implemented in accordance with the service delivery and budget implementation plan.
5.1.5. Instruct the Accounting Officer to ensure that the budget is implemented in accordance with the service delivery and budget implementation plan and that spending of funds and revenue collection proceed in accordance with the budget.

5.2. Role of the Accounting Officer

The Municipal Manager is the Accounting Officer and the administrative authority for the municipality. In the first instance the Accounting Officer is accountable to the Executive Mayor for the implementation of specific agreed outputs.
In the second instance the Accounting Officer is accountable to the Council for the overall administration of the municipality. The Accounting Officer must be fully aware of the reforms required in order to provide the Executive Mayor, Councillors, senior officials and municipal entities with the appropriate guidance and advice on financial and budget issues. Whilst the Accounting Officer may delegate to the Chief Financial Officer or other senior officials, this must be done carefully to ensure that all tasks are completed appropriately.

The Accounting Officer should:

5.2.1. Implement the municipality's approved budget, including taking all reasonable steps to ensure that the spending of funds is in accordance with the budget and is reduced as necessary when revenue is anticipated to be less than projected in the budget.
5.2.2. Ensure that revenue and expenditure are properly monitored.
5.2.3. When necessary, the Accounting Officer must prepare an adjustments budget and submit it to the Executive Mayor for consideration and tabling in the municipal council.
5.2.4. Report to the municipal council any shortfalls in the budget revenue, overspending and the necessary steps taken to prevent shortfalls or overspending.
5.2.5. Submit to the Executive Mayor actual revenue, borrowings, expenditure and where necessary report the variances on revenue projected and the budget.
5.2.6. The Accounting Officer shall ensure that all senior managers provide the inputs required by the Chief Financial Officer for these budget processes.

5.3. Role of the Chief Financial Officer

5.3.1. Without derogating in any way from the legal responsibilities of the Municipal Manager as Accounting Officer, the Chief Financial Officer shall be responsible for preparing the draft annual budget (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the cash and investments policy), and shall be accountable to the Accounting Officer in regard to the performance of these functions.

5.3.2. The Chief Financial Officer shall provide input to the budget timetable for the ensuing financial year for the Executive Mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget-related documentation to the Mayor, Budget Steering committee, executive committee and council.

5.3.3. In preparing the budget, the Chief Financial Officer shall comply – in so far as the organisational structure permits –with the prescribed budget format of National Treasury; GRAP and with mSCOA.

5.3.4. The Chief Financial Officer shall determine and appropriate the depreciation expenses, the apportionment of interest payable, contributions to any reserve of the municipality, contributions to the provisions for impairment of debtors, accrued leave entitlements and obsolescence of stocks to each vote.

5.3.5. The Chief Financial Officer shall further, according to the Borrowing, funding and reserves policy, determine the contribution to the capital replacement reserve and any other contributions to other reserves of the municipality.

5.3.6. The Chief Financial Officer shall, with the approval of the Mayor and the Accounting Officer, and having regard to the municipality's current financial performance, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted and shall comply so far as possible with the prescribed increases by National Treasury.

5.3.7. The Chief Financial Officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and senior managers and line managers shall timeously and adequately furnish the Chief Financial Officer with all explanations required for deviations from the budget.

5.3.8. The Chief Financial Officer shall provide technical and administrative support to the Executive Mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.

5.3.9. The Chief Financial Officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the Mayor on the revision of the IDP and the budget-related policies where these are indicated.

5.3.10. The Chief Financial Officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.

5.3.11. The Chief Financial Officer shall ensure that the cost of any relief/rebate is separately reflected in the appropriate mSCOA segments.

5.3.12. The Chief Financial Officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations are appropriately recorded.

5.4. The role of senior managers and other officials

According to the MFMA, the following are the roles to be carried out by the senior managers and other officials:

5.4.1. That the system of financial management and internal control established for the municipality is carried out.
5.4.2. Ensure that the resources of the municipality are utilised effectively, efficiently, economically and transparently.
5.4.3. Prevent unauthorised, irregular or fruitless and wasteful expenditure and other losses.
5.4.4. Collection of revenue.
5.4.5. Safeguarding, maintenance and management of assets.
5.4.6. Submission of information to the Accounting Officer for compliance with the Act.

6. APPROPRIATION OF FUNDS FOR EXPENDITURE

6.1. Section 15 of the MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions:

> “A municipality may, except where otherwise provided in this Act, incur expenditure only:
> *(a)* in terms of an approved budget; and
> *(b)* within the limits of the amounts appropriated for the different votes in an approved budget.”

6.2. With regard to multiple funded capital projects, external funds received must first be appropriated, except if otherwise stated in the conditions of the grant or in the applicable contract.

7. ANNUAL BUDGETS

7.1. In accordance with section 16 of the MFMA, the Council of a municipality must for each financial year approve an annual budget for the municipality before the start of that financial year.

7.2. In order for a municipality to comply with subsection (1) of section 16 of the MFMA, the Mayor of the municipality must table the annual budget at a council meeting at least 90 days before the start of the budget year.

7.3. Subsection (1) of section 16 of the MFMA does not preclude the appropriation of money for capital expenditure for a period not exceeding three financial years, provided a separate appropriation is made for each of those financial years.

8. FUNDING OF EXPENDITURE

8.1. Section 18 of the MFMA prescribes as follows:

> "(1) An annual budget may only be funded from—
> (*a*) realistically anticipated revenues to be collected;
> (*b*) cash-backed accumulated funds from previous years' surpluses not committed for other purposes; and
> (*c*) borrowed funds, but only for the capital budget referred to in section 17(2).
>
> (2) Revenue projections in the budget must be realistic, taking into account—
> (*a*) projected revenue for the current year based on collection levels to date; and
> (*b*) actual revenue collected in previous financial years."

8.2. Additional funding requirements is included in the Borrowing, Funding and Reserve policy.

9. BUDGET PREPARATION PROCESS

9.1. FORMULATION OF THE BUDGET

9.1.1. The Accounting Officer with the assistance of the Chief Financial Manager and the Manager responsible for IDP shall draft an IDP and Budget process plan with timetables for the municipality including municipal entities for the ensuing financial year.

9.1.2. The Executive Mayor shall table the IDP and Budget process plan to Council by 31 August each year for approval (10 months before the start of the next budget year).

9.1.3. The IDP and Budget process plan shall indicate the key deadlines for the review of the IDP as well the preparation of the medium term revenue and expenditure framework budget and the revision of the annual budget. Such target dates shall follow the prescriptions of the MFMA, Municipal Budget and Reporting Regulations and the guidelines set by National Treasury.

9.1.4. The Executive Mayor shall convene a strategic workshop in September/October with the Executive Mayoral committee and senior managers in order to determine the IDP priorities, which will form the basis for the preparation of the MTREF budget taking into account the financial and political pressure facing the municipality.

9.1.5. The Executive Mayor shall table the draft IDP and MTREF budget to council by 31 March (90 days before the start of the new year) together with the draft resolutions and budget related policies (policies on tariff setting, credit control, debt collection, indigents, investment and cash management, borrowings, etc.).

9.1.6. The Chief Financial Officer and senior managers undertake the technical preparation of the budget.

9.1.7. The budget must be in the format prescribed by the Municipal Budget and Reporting Regulations.

9.1.8. The budget must reflect realistically expected revenues for the budget year concerned.

9.1.9. The revenue and expenses reflected in the budget must be classified as per the classification framework of mSCOA.

9.1.10. The budget must also contain the information related to the two financial years following the financial year to which the budget relates, as well as the estimated revenues and expenses for the current year and the three prior year actual outcomes.

9.2. PUBLIC PARTICIPATION PROCESS

9.2.1. Immediately after the draft annual budget has been tabled, the municipality must convene public participations meetings on the draft budget during April and early May of each year and invite the public and stakeholder organisations to make representation at these meetings and to submit comments in response to the draft budget.

9.3. APPROVAL OF THE BUDGET

9.3.1. Council shall consider the Annual budget for approval not later than 31 May (30 days before the start of the budget year).

9.3.2. The Council resolution must contain budget policies and performance measures shall be adopted.

9.3.3. Should the Council fail to approve the budget before the start of the budget year, the Executive Mayor must inform the MEC for Finance that the budget has not been approved.

9.3.4. The budget tabled to Council for approval shall at least include the following supporting documents:
9.3.4.1. Draft resolutions approving the budget and levying property rates, other taxes and tariffs for the financial year concerned,
9.3.4.2. Measurable performance objectives for each budget vote, taking into account the municipality's IDP,

9.3.4.3. The projected cash flows for the financial year by revenue sources and expenditure votes,
9.3.4.4. Any proposed amendments to the IDP,
9.3.4.5. Any proposed amendments to the budget-related policies,
9.3.4.6. The cost to the municipality of the salaries, allowances and other benefits of its political office bearers and other councillors, the accounting officer, the chief financial officer, and other senior managers.
9.3.4.7. Particulars of any proposed allocations or grants to other municipalities, municipal entities, external mechanisms assisting such as Non-Governmental Organisations, welfare institutions and so on,
9.3.4.8. Particulars of the municipality’s investments, and
9.3.4.9. Various information in regard to municipal entities under the shared or sole control of the municipality.

9.4. PUBLICATION OF THE BUDGET

9.4.1. When making public the draft annual budget and supporting documentation in terms of section 22(a) of the MFMA, read with section 21A of the Municipal Systems Act, the Accounting Officer must also make public any other information that the municipal council considers appropriate to facilitate the budget consultation process.

9.4.2. The annual budget must be submitted in both printed and electronic formats to the National Treasury and the relevant Provincial Treasury.

9.4.3. Within ten working days after the municipal council has approved the annual budget of a municipality, the Accounting Officer must in accordance with section 21A of the Municipal Systems Act make public the approved annual budget and supporting documentation and the resolutions referred to in section 24(2)(c) of the MFMA.

9.5. SERVICE DELIVERY AND BUDGET IMPLEMENTATION PLAN (SDBIP)

9.5.1. The Executive Mayor must approve the Service Delivery and Budget Implementation Plan not later 28 days after the approval of the Budget by Council.

9.5.2. The SDBIP shall include the following components:

9.5.2.1. Monthly projections of revenue to be collected for each source;
9.5.2.2. Monthly projections of expenditure (operating and capital) and revenue for each vote;
9.5.2.3. Quarterly projections of service delivery targets and performance indicators for each vote;
9.5.2.4. Ward information for expenditure and service delivery; and
9.5.2.5. Detailed capital works plan broken down by ward over three years.

10. CAPITAL BUDGET

10.1. BASIS OF CALCULATION

10.1.1. The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.

10.1.2. The annual capital budget shall be based on realistically anticipated revenue, which should be equal to the anticipated capital expenditure in order to result in a balanced budget.

10.1.3. The impact of the capital budget on the current and future operating budget in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual capital budget is being compiled.

10.1.4. In addition, the Council shall consider the likely impact of such operational expenses, net of any revenues expected to be generated by such item, on future property rates and service tariffs.

10.2. BUDGET PRINCIPLES

10.2.1. Expenditure of a project shall be included in the capital budget if it meets the definition of a capital asset.

10.2.2. Vehicle replacement shall be done in terms of Council’s vehicle replacement policy. The budget for vehicles shall distinguish between replacement and new vehicles. No global amounts shall be budgeted for vehicle acquisition.

10.2.3. The capital budget shall distinguish between the replacement, renewal, upgrading and new capital assets.

10.2.4. A municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.

10.2.5. The envisaged sources of funding for the capital budget must be properly considered and the Council must be satisfied that this funding is available and not been committed for other purposes.

10.2.6. With regard to the compilation of the capital budget:

10.2.6.1. The outer years (year 2 and 3) as approved with the previous Medium-term Revenue and Expenditure Framework (MTREF) will be utilised as the departure point.
10.2.6.2. Contractually bound, multi-year projects and on-ongoing projects will take preference.
10.2.6.3. Should any funding capacity be available after funding the above mentioned, new projects will be prioritised and funded in terms of priority, value for money, benefit to Mossel Bay Municipality and strategic objectives.

10.2.7. No budget will be allocated for capital projects unless the project is included in the IDP and when it relates to infrastructure projects, as defined in SIPDM, gate 4 compliance is a prerequisite for inclusion in the capital budget, for any other project the minimum requirement is a project initiation report with all details as prescribe by the Budget Office, which include:
10.2.7.1. A cost analysis that must indicated the financial viability of the project, and
10.2.7.2. The total project costs (including projected future operational costs) as per the requirement of the MFMA.

It is the intension of Management to change the business process that no project may be considered for budget allocation before project approval is obtained by Council. The implementation of this will be communicated once the business process is developed and tested.

10.2.8. Before approving a capital project, the Council must consider:

10.2.8.1. The projected cost of the project over all the ensuing financial years until the project becomes operational, future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs);
10.2.8.2. The impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loan;
10.2.8.3. Depreciation of capital assets;
10.2.8.4. Maintenance of capital assets; and
10.2.8.5. Any other ordinary operational expenses associated with any item on such capital budget.

10.2.9. Council shall approve the annual or adjustment capital budget only if it has been fully funded.

10.3. FUNDING OF CAPITAL BUDGET

The capital expenditure shall be funded from the following source:

10.3.1. External loans

10.3.1.1. Council can make use of external borrowings. For more details on the borrowings refer to the Borrowing, Funding and Reserves policy as approved by Council.

10.3.2. Capital Replacement Reserve (CRR)

10.3.2.1. Council shall establish a CRR for the purpose of financing capital projects for the acquiring of capital assets. For more details on the CRR refer to the Borrowing, Funding and Reserves policy as approved by Council.

10.3.3. Grant Funding

10.3.3.1. Capital expenditure funded from grants must be budgeted for in the capital budget.

10.3.3.2. Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – capital and must be budgeted for as such.

10.3.3.3. Interest earned on investments due to unspent Conditional Grant Funding for which the grant condition stated the interest must accrue to the grant/project shall be capitalised to the unspent grant fund, if there is no condition stated then the interest must be allocated directly to the revenue accounts of the Municipality.

10.3.3.4. Grant funding needs to be secured in the form of cash before spending can take place, except in instances where the written agreement with the transferring authority determine otherwise or approval was received from the Municipal Manager that bridging funds can be utilised.

10.3.3.5. All unspent grants must be ring fenced and/or cash backed in the form of cash and cash equivalents.

11. OPERATING BUDGET

11.1. The municipality shall budget in each annual and adjustments budget for the contribution to:

11.1.1. Provision for accrued leave entitlements equal to 100% of the accrued leave;
11.1.2. Continued employee benefits as at 30 June of each financial year;
11.1.3. Provision for impairment of debtors in accordance to the generally recognised accounting standards (GRAP);
11.1.4. Provision for the obsolescence and deterioration of stock in accordance with its inventory management policy;
11.1.5. The level of cash funding in respect to 11.1.1. and 11.1.2. above is set out in the Borrowing, Funding and Reserves Policy.

11.2. Depreciation and finance charges shall be charged to or apportioned only between the various cost centres to which the projects relate.

11.3. A percentage of the operating budget for each annual and adjustments budget shall be set aside for repairs and maintenance in the project segment as per the Borrowing, Funding and Reserves policy approved by Council.

11.4. Salary increases will be based on the SALGA wage agreement.

11.5. When considering the draft annual budget, Council shall consider the impact, which the proposed increases in rates and service tariffs will have on the monthly municipal accounts of households. The impact of such increases shall be assessed on the basis of a fair sample of randomly selected accounts.

11.6. Non-capital expenditure funded from grants must be budgeted as per the normal classification for example contracted services, inventory consumed etc. an amount equal to the amount spent will be recognised as revenue as per the next section in the operating revenue budget. The fund segment in these instances must be transfers and subsidies.

11.7. Expenditure must be reimbursed from the unspent grant and recognised in the operating budget as transfers recognised – operational and must be budgeted for as such.

11.8. The operating budget shall reflect the impact of the capital component on:

11.8.1. Depreciation and amortisation charges;
11.8.2. Repairs and maintenance as per the project segment, which include employee related cost, inventory consumed, operational cost and contracted services;
11.8.3. Interest payable on external borrowings;
11.8.4. Any other operational expenses.

12. UNSPENT FUNDS AND ROLL-OVER OF BUDGET

12.1. The appropriation of funds in an Annual or Adjustment Budget will lapse to the extent that they are unspent by the end of the relevant budget year.

12.2. Conditions of the grant funding shall be taken into account in applying for rollover of grant funds.

12.3. Projects funded from the Capital Replacement Reserve may be rolled over but only if the following conditions are met:

12.3.1. The Chief Financial Officer or his/her delegate must assess the funding requirements from and to the CRR for the next 3 budget years and only if sufficient funding is available in the CRR any projects may be considered for rolled over; and

12.3.2. The funds to be rolled over must have been committed before the 30th June; and

12.3.3. The relevant Senior Manager must provide a detailed report providing the reasons for non-compliance to the deadline of 30th June as proof and to substantiate 12.3.2 above; and

12.3.4. Funds from the CRR must be appropriated to this project in the adjustment budget in terms of section 28 (2) (e).

12.4. If the conditions mentioned in 12.3 for the rollover of a project could not be met, then the relevant Senior Manager must re-prioritise projects within his/her directorate in order to stay within the funding available within the CRR over the next 3 years and submit a report to this effect to be considered as part of the roll over adjustment budget.

12.5. Projects funded from Borrowings may be rolled over from the year it originates with an adjustments budget only if the funding is still available and no contract conditions of the investor or financer prohibits the roll over.

13. VIREMENT REQUIREMENTS

13.1. A virement represents a flexible mechanism to affect budgetary amendments within a financial year, and represents a mechanism to align and take corrective (financial / budgetary) action within a Vote or Directorate during a financial year.

13.2. To transfer funds from one operating or capital project to another operating or capital project within a vote, a saving has to be identified within the monetary limitations of the approved vote allocations on the respective budgets.

13.3. Any budgetary amendments of which the net impact will result in exceeding the approved annual budget allocation for a vote and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustments budget (per MFMA section 28)

13.4. In terms of Section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between Operating and Capital Budgets.

13.5. No funds may be viremented between votes (Directorates) without approval in an adjustment budget.

13.6. No Virement may be made where it would result in unauthorised expenditure (Section 32 of MFMA).

13.7. Virements may not be made between Expenditure and Revenue.

13.8. Virement amounts may not be rolled over to subsequent years, or create expectations on following budgets. (Section 30 of MFMA)

13.9. No virements are permitted in the first three months or the final month of the financial year without an express recommendation by the specific Director and the approval of the Chief Financial Officer or his/her delegate.

13.10. OPERATING BUDGET VIREMENTS:

13.10.1. Virements are not allowed to utilise any special purpose operating budgetary allocations approved by Council and which is specifically mentioned and highlighted as such during the approval of the budget.

13.10.2. Only Council may consider the virements of these funds mentioned in section 13.10.1. and only after full motivations were provided for these virements.

13.10.3. Employee Related Cost / Remuneration of Councillors

13.10.3.1. Virements to and from the categories Employee related cost and Remuneration of Councillors are only permitted:
13.10.3.1.1. If the relevant senior manager can proof that no future budgetary implications will be made; and
13.10.3.1.2. The Chief Financial Officer or his/her delegate approves the virement; or
13.10.3.1.3. Unless approved by Council.

13.10.4. Specific Expenditure items

13.10.4.1. Virements to and from the following items are not allowed: Bulk purchases; Bad debts written off, Interest, Dividends and Rent on Land; Depreciation and Amortisation, Transfers and Subsidies, Gains and Losses, Default expenditure, inventory consumed relating to water and other non-cashed items as determined by the Chief Financial Officer.

13.10.5. Virements in respect of expenditure line items funded from Transfers and Subsidies or any other external source of finance must be in line with approved business plans and must comply with the conditions of the specific contract / grant conditions.

13.10.6. Revenue

13.10.6.1. No virements are permitted in relation to the revenue side of the budget.

13.10.6.2. Revenue amendments are to be adopted via an adjustments budget.

13.10.7. Confirmation

The availability of budgetary allocations should be confirmed by the Head: Expenditure.

13.11. CAPITAL BUDGET VIREMENTS:

13.11.1. Virements in respect of savings on capital projects will only be considered if the proposed virement:
13.11.1.1. is due to a saving on an approved budgeted project which has been completed;
13.11.1.2. includes all cost elements of the project and if all cost elements were recorded, verified and certified as the accurate and the final project cost by the relevant Senior Manager, including retention fees;
13.11.1.3. the virement is within the same vote as per the definition of this policy; and
13.11.1.4. the virement is made to an approved capital project that is already included in the capital budget for the same financial year.

13.11.2. The virement of projects funded from the Municipal Infrastructure Grant will only be allowed if:
13.11.2.1. The project that will receive the virement is a project that is already approved by the relevant provincial department;
13.11.2.2. the virement is within the same vote as per the definition of this policy;
13.11.2.3. the counter funding is also transferred;
13.11.2.4. the virement is made to an approved capital project that is already included in the capital budget for the current or the next two years; and if
13.11.2.5. the principles as contemplated in Section 31 are adhered to when the project refers to a project budgeted for in the outer years.

13.11.3. Any other virements in respect of capital projects will only be permitted and included to approved projects as part of the annual or adjustment budgets and the approved IDP of the Council.

13.11.4. Budgeted amounts in respect of approved capital projects which are, due to changed circumstances, not executed at all, can only be viremented by Council.

13.11.5. Virements of Conditional Grant funds to purposes outside of that specified in the relevant Conditional Grant framework is not permitted.

13.11.6. Virements of Capital Projects can only be approved between projects of similar funding sources (e.g. MIG to MIG or CRR to CRR).

13.11.7. Motivations for virements should state the reason for the saving as well as the reason for the additional amount required.

13.11.8. Capital project virements will only be allowed after the February adjustment budget if the virement adheres to the following:

- 13.11.8.1. Are between capital projects already approved in the adjustment budget;
- 13.11.8.2. Not to be used for furniture and equipment;
- 13.11.8.3. Not be allowed after May 31 of each year;
- 13.11.8.4. Will only be allowed after year-end to rectify projects funded with external funds. These solutions must be bona vide solutions and not to balance budgets; and

Only the CFO or his/her delegate may approve such virements after proper written motivation from the Senior Manager.

13.12. DELEGATIONS:

13.12.1. The authority is delegated to every Senior Manager to approve virements within his/her specific vote, subject to other prescripts as per this budget policy.

13.12.2. Virements between votes would require a Council resolution which is confirmed through the Adjustment Budget.

14. VIREMENT PROCESS AND ACCOUNTABILITY

14.1. All virement proposals must be fully completed on the application form as prescribed by the Budget Office (Refer to attached Annexure A) and must be completed in accordance with Council’s budget policy.

14.2. All virement proposals must be approved by the relevant Senior Manager in terms of their powers of delegation.

14.3. Completed virement documentation must also be verified by the Head: Expenditure as confirmation of available funds and/or savings.

14.4. A virement application form must be fully completed and approved before any expenditure can be committed or incurred.

14.5. Virements approved by the Senior Managers will be reported to Council on a quarterly basis.

15. ADJUSTMENT BUDGET

15.1. Council may revise its annual budget by means of an adjustment budget in terms of section 28 of the MFMA and according to the timelines set out in the Municipal Budget and Reporting regulations section 23.

15.2. Section 28(2) of the MFMA determines when an adjustment must be done and when it may be prepared.

15.3. The Accounting Officer must promptly adjust its budgeted revenues and expenses if a material under-collection of revenues arises or is apparent.

15.4. The Accounting Officer shall appropriate additional revenues, which have become available but only to revise or accelerate spending programmes already budgeted for or any areas of critical importance identified by Council.

15.5. The Council shall in such Adjustment Budget, and within the prescribed framework, confirm unforeseen and unavoidable expenses on the recommendation of the Executive Mayor.

15.6. The Chief Financial Officer shall ensure that the Adjustment Budgets comply with the requirements of the National Treasury, reflect the budget priorities determined by the Executive Mayor, are aligned with the IDP, comply with all budget-related policies, and shall make recommendations to the Executive Mayor on the revision of the IDP and the budget-related policies where these are indicated.

15.7. The Council should also authorise the spending of unspent grant funding at the end of the previous financial year, where such under-spending could not reasonably have been foreseen at the time the Annual Budget was approved by the Council.

15.8. An Adjustment Budget must contain all of the following:

15.8.1. an explanation of how the adjustments affect the approved Annual Budget;
15.8.2. appropriate motivations for material adjustments; and
15.8.3. an explanation of the impact of any increased spending on the current and future annual budgets.

15.9. Municipal taxes and tariffs may not be increased during a financial year except if required in terms of a financial recovery plan.

15.10. Any unappropriated surplus from previous financial years, even if fully cash-backed, shall not be used to balance any adjustments budget.

16. UNFORESEEN AND UNAVOIDABLE EXPENDITURE

16.1. The Executive Mayor may authorise expenditure in terms of section 29 of the MFMA only if:
16.1.1. The expenditure could not have been foreseen at the time the annual budget of the municipality was passed, and
16.1.2. The delay that will be caused pending approval of an adjustments budget by the municipal council in terms of section 28(2)(c) of the MFMA to authorise the expenditure may:
16.1.2.1. Result in significant financial loss for the municipality;
16.1.2.2. Cause a disruption or suspension, or a serious threat to the continuation, of a basic municipal service;
16.1.2.3. Lead to loss of life or serious injury or significant damage to property; or
16.1.2.4. Obstruct the municipality from instituting or defending legal proceedings on an urgent basis.

16.2. The Executive Mayor may NOT authorise expenditure in terms of section 29 of the MFMA if the expenditure:

16.2.1. Was considered by the council, but not approved in the annual budget or an adjustments budget;
16.2.2. Is required for:
16.2.2.1. Price increases of goods or services during the financial year;
16.2.2.2. New municipal services or functions during the financial year;
16.2.2.3. The extension of existing municipal services or functions during the financial year;
16.2.2.4. The appointment of personnel during the financial year;
16.2.2.5. Allocating discretionary appropriations to any vote during the financial year; or
16.2.3. Would contravene any existing council policy; or
16.2.4. Is intended to ratify irregular or fruitless and wasteful expenditure.

16.3. The amount of expenditure that an Executive Mayor may authorise in terms of section 29 of the MFMA is limited to:
16.3.1. R15 million in the case of a municipality with approved total revenue in its current annual budget greater than R500 million.

17. BUDGET IMPLEMENTATION

17.1. MONITORING

17.1.1. The Accounting Officer with the assistance of the Chief Financial Officer and other senior managers is responsible for the implementation of the budget, and must take reasonable steps to ensure that:
17.1.1.1. funds are spent in accordance with the Budget;
17.1.1.2. expenses are reduced if expected revenues are less than projected; and
17.1.1.3. revenues and expenses are properly monitored.
17.1.2. The Accounting Officer with the assistance of the Chief Financial Officer must prepare any Adjustment Budget when such budget is necessary and submit it to the Executive Mayor for consideration and tabling to Council.

17.1.3. The Accounting Officer must report in writing to the Council any impending shortfalls in the Annual Revenue Budget, as well as any impending overspending, together with the steps taken to prevent or rectify these problems.

17.2. REPORTING

17.2.1. Monthly budget statements

17.2.1.1. The Accounting Officer with the assistance of the Chief Financial Officer must, not later than ten working days after the end of each calendar month, submit to the Executive Mayor and Provincial and National Treasury a report in the prescribed format on the state of the municipality's Budget for such calendar month, as well as on the state of the budget cumulatively for the financial year to date.

17.2.1.2. This report must reflect the following:
17.2.1.2.1. actual revenues per source, compared with budgeted revenues;
17.2.1.2.2. actual expenses per vote, compared with budgeted expenses;
17.2.1.2.3. actual capital expenditure per vote, compared with budgeted expenses;
17.2.1.2.4. actual borrowings, compared with the borrowings envisaged to fund the capital budget;
17.2.1.2.5. the amount of allocations received, compared with the budgeted amount;
17.2.1.2.6. actual expenses against allocations,
17.2.1.2.7. the remedial or corrective steps to be taken to ensure that the relevant projections remain within the Approved or Revised Budget; and
17.2.1.2.8. projections of the revenues and expenses for the remainder of the financial year, together with an indication of how and where the original projections have been revised.
17.2.1.3. The report to the National Treasury must be both in electronic format and in a signed written document.

17.2.2. Quarterly Reports

17.2.2.1. The Executive Mayor must submit to Council within thirty days of the end of each quarter a report on the implementation of the Budget and the financial state of affairs of the municipality.

17.2.3. Mid-year budget and performance assessment

17.2.3.1. The Accounting Officer must assess the budgetary performance of the municipality for the first half of the financial year, taking into account all the monthly budget reports for the first six months, the service delivery performance of the municipality as against the service delivery targets and performance indicators which were set in the Service Delivery and Budget Implementation Plan.

17.2.3.2. The Accounting Officer must then submit a report on such assessment to the Mayor of the municipality, the National Treasury and the relevant Provincial Treasury by 25 January each year and to Council by 31 January each year.

17.2.3.3. The Accounting Officer may in such report make recommendations after considering the recommendation of the Chief Financial Officer for adjusting the Annual Budget and for revising the projections of revenues and expenses set out in the Service Delivery and Budget Implementation Plan.

18. CONCLUSION

18.1. The Accounting Officer must place on the municipality's official website the following documentation with regards to the Budget policy:
18.1.1. the Annual and Adjustment Budgets and all budget-related documents;
18.1.2. all budget-related policies;
18.1.3. the Annual Report; and
18.1.4. all quarterly and mid-year reports submitted to the Council on the implementation of the budget and the financial state of affairs of the municipality.

19. REVIEW OF THE POLICY

19.1. This Budget Policy is the sole policy governing any budget process within the municipality. The Municipal Council must approve any reviews to this policy.

19.2. The Executive Mayor must submit any proposed changes to this policy to the Council as part of the annual review of policies submitted with the budget documentation.

19.3. Whenever the Minister of Finance or the National Treasury or the Auditor-General requires changes to the policy by means of legislation or requests it should be reviewed promptly in accordance with such requirements, giving full details of the reasons for the revision.

DOCUMENT AND VERSION CONTROL

Version: **Version 5**

Date: **May 2018**

Summary: This document describes the Budget policy that will be applicable to the Mossel Bay Municipality, with effect from

1 July 2018

Signature: ………………………………………………… Date: 31/05/2018
Municipal Manager
(Accounting Officer)

Signature: Levendal………………………………………… Date: 31/05/2018
Executive Mayor

ANNEXURE A

MOSSEL BAY MUNICIPALITY

APPLICATION FOR A VIREMENT OF FUNDS

TO: CHIEF FINANCIAL OFFICER
FROM DIRECTORATE: ____________________
FINANCIAL YEAR: ____________________

Transfer the following savings as identified on the current budget to the following budget allocations:

Decrease			Increase			Amount
mSCOA vote number	Old vote number	Vote description	mSCOA vote number	Old vote number	Vote description	

MOTIVATION FOR TRANSFER:

It is hereby certified that the above request for the transfer of funds adhere to the Budget Policy as approved by Council.

Requested by:		
Name	Signature	Date

Approved by Director:		
Name	Signature	Date

Savings confirmed by Head of Expenditure:		
Name	Signature	Date

Processed by Accountant Creditors:		
Name	Signature	Date

Review of veriment processed Head of Expenditure:		
Name	Signature	Date